ATLANTIC Report

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Atlantic Canada's Growing but Changing Energy Potential

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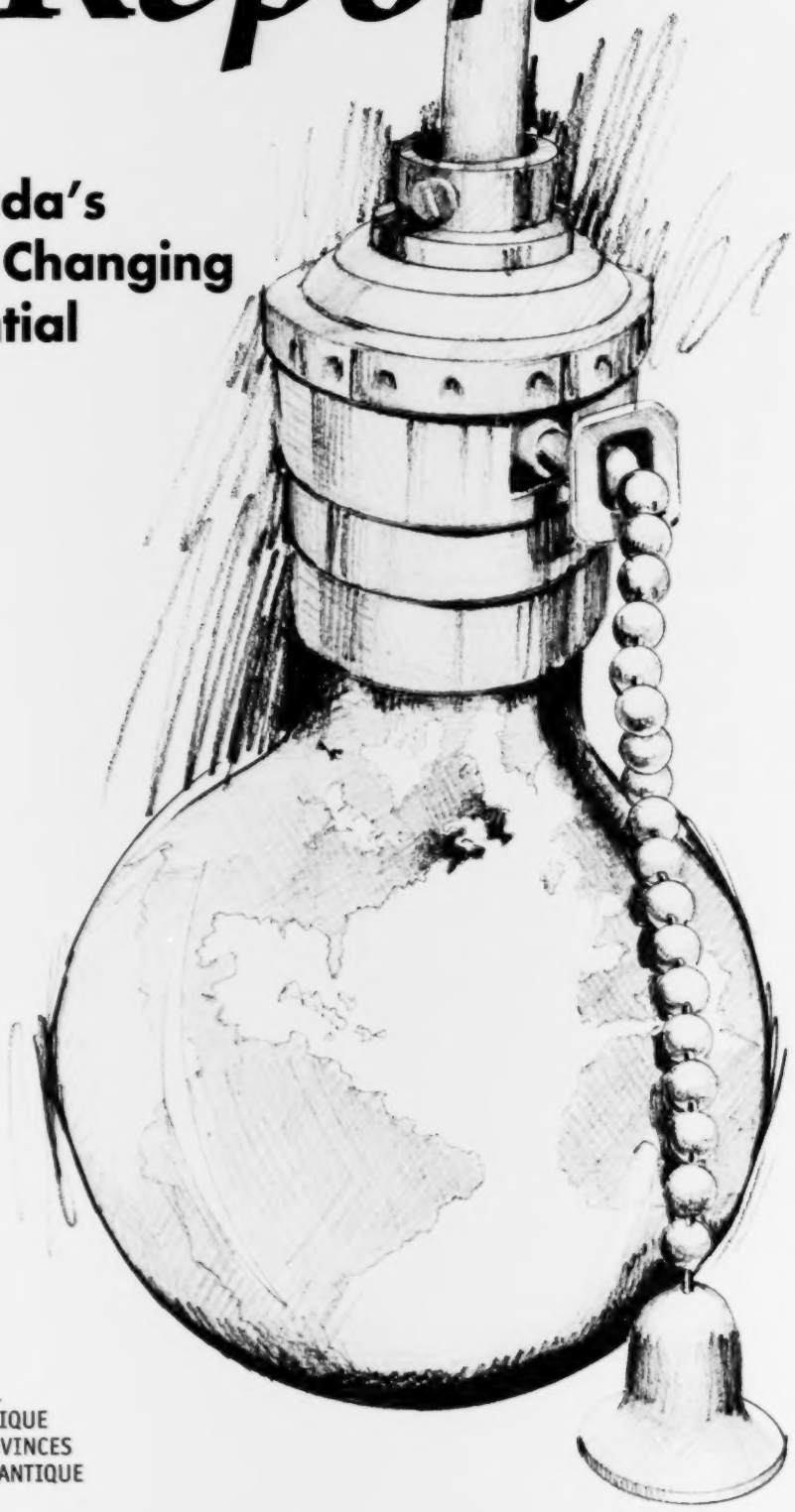

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The Atlantic Provinces Economic Council (APEC) is an independent, not-for-profit, research and public policy organization that seeks to advance the economic development of the Atlantic Region. APEC's revenue is derived primarily from membership, funded research and sponsorships. Our membership includes individuals, small and large companies, labour groups, academic institutions, municipalities and government agencies.

Information on membership and publications is available by:

Mail: 5121 Sackville Street
Suite 500
Halifax, NS B3J 1K1

Telephone: 902-422-6516
Fax: 902-429-6803
Email: info@apec-econ.ca
Homepage: www.apec-econ.ca

About this Report

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Contributors to this issue of Atlantic Report:
Elizabeth Beale
Patrick Brannon
David Chaundy
Josie Marcille

Layout, design and front cover illustration:
Dave Leonard

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Atlantic Report
Highlights

Atlantic Canada's Growing but Changing Energy Potential

- Atlantic Canada's diverse energy sector has grown very rapidly over the last decade boosting its contribution to total output and international exports. The Atlantic region has gone from an annual international trade deficit in energy products of more than $2.25 billion in 1995-97 to a trade surplus of $3.75 billion in 2005-06, and $6.4 billion in 2007.

- Looking ahead, the prospects for further growth in energy production are promising with several major projects in various stages of development. The energy projects in APEC's 2007 Major Projects Inventory amounted to over $42 billion in actual and proposed investment. Offshore oil and gas projects no longer dominate the region's energy potential. Planned energy developments also include new refineries, liquefied natural gas facilities, wind farms and hydroelectricity projects.

- New England is the current market for about 85% of Atlantic Canada's international energy exports. Continued growth in demand in the North East is a key driver for many of the new and proposed energy projects in the region.

- Energy developments in the Atlantic region are responding both to future economic opportunities and environmental considerations. Greenhouse gas emissions have been rising in Atlantic Canada due to increased energy production and use. Increasing this region's access to renewable energy and cleaner supplies of energy will have to be a key part of any emission reduction initiative.

- While each Atlantic province has somewhat different opportunities in terms of energy developments, there are some common challenges and potential scope to improve outcomes by working together. Improved transmission within the region would help improve energy security and access to new, cleaner energy sources, most notably hydroelectricity from Lower Churchill.

Atlantic Canada Overview

- The economic outlook for the United States has weakened considerably since the fall and this has led to a downgrading of growth forecasts for Canada. The Atlantic provinces are not immune from these developments but growth in the energy and mining sector, recently awarded manufacturing contracts and the entry of new firms in the service sector will help the region weather the current turbulence.

- Most forecasters now expect almost no growth in the United States in the first half of 2008. What matters now is how deep and how long the current slowdown will be. There remain significant downside risks.

- Overall, the Canadian economy is in much stronger shape than the United States. Inflation has fallen and is expected to remain below target until 2009. Further modest interest cuts are likely in the coming months. Federal and provincial budgets are likely to sound a cautious note given the uncertainty about economic prospects with most Atlantic governments facing significant fiscal pressures.

Atlantic Canada's Growing but Changing Energy Potential

Energy is essential for the effective functioning of the economy in Atlantic Canada. We use it for lighting, heating, cooling, and power for our homes, offices, shops, schools and hospitals and for both personal and business transportation. Energy is required to transform materials and power machines in our manufacturing, agricultural, mining and construction sectors.

The energy sector in Atlantic Canada has also grown very rapidly over the last decade, boosting its contribution to total output and international exports. Looking ahead, the prospects for further growth in energy production are promising with several major projects in various stages of development. But the nature of these energy projects is changing with climate change considerations an increasingly important factor.

This report documents the recent and projected growth in Atlantic Canada's energy portfolio, discusses the two most prominent drivers of these energy developments – growing demand for energy in U.S. Northeast and environmental pressures for cleaner energy – and highlights the risks involved in making these long-term energy investments. The article concludes by pointing to the potential for more of a regional approach to help ensure a clean energy future for the Atlantic provinces.

A Growing Energy Sector

The energy sector, defined to include utilities, refineries and offshore oil and gas production, is an important contributor to Atlantic Canada's economy. Direct employment, while not large, amounts to about 12,500 people. But on an output basis the energy sector accounts for almost 8% of the region's GDP, a share that jumps to over 20% in Newfoundland and Labrador with its huge offshore oil output. In fiscal year 2007/08, royalties from offshore projects are projected to be about $400 million in Nova Scotia and $1.6 billion in Newfoundland and Labrador.

International energy exports have increased from under $2 billion in the 1990s to $16.6 billion in 2007, worth more than the total value of Atlantic Canada's non-energy merchandise exports. While higher energy prices have also increased the cost of importing crude oil, the Atlantic region has gone from an annual

international trade deficit in energy products of more than $2.25 billion in 1995-97 to a trade surplus of $3.75 billion in 2005-06 and $6.4 billion in 2007. Marine transportation plays a vital role in this trade in energy products. Shipments of crude and refined petroleum products account for 80% of the total marine tonnage moved into and out of the Atlantic region.

Atlantic Canada's existing energy sector is surprisingly diverse. There are 25 conventional power plants throughout the region using coal, oil, gas and other fuels as well as one nuclear plant. The region's energy portfolio includes three offshore oil projects, one offshore and one onshore natural gas project and three refineries. In terms of renewable energy, the region boasts a tidal power plant, a small number of wind farms, a few biomass facilities and a large number of hydro operations. An extensive transmission network connects the various power plants to the electricity grid and then to businesses and consumers.

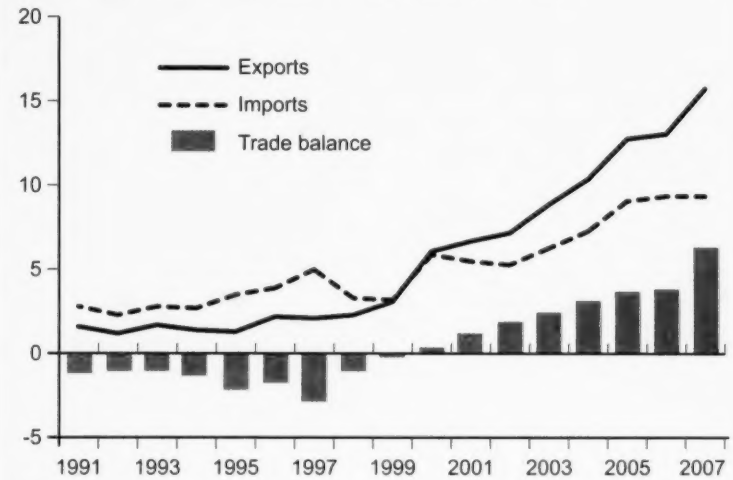
It is the potential growth in the region's energy supply that is capturing most attention. The energy projects in APEC's 2007 Major Projects Inventory amounted to over $42 billion in actual and proposed investment, up from $30 billion just two years earlier.

In 2002-03 it was the oil and gas sector that accounted for most of the proposed energy investment, accounting for about 40% of the total value in APEC's Major Projects Inventory. Today, with the completion of four offshore projects and limited exploration activity, oil and gas accounts for only 12% of total projected investment. But other energy projects have increased in importance, accounting for 40% of the total value in APEC, Major Projects Inventory. These investments include proposed refineries, liquefied natural gas facilities, wind farms and hydroelectric projects.

Conventional Energy Output

Newfoundland and Labrador's three producing offshore oil fields accounted for about 23% of conventional crude oil production in Canada in 2006. Output from the existing projects is expected to decline over the next few years, but this may be offset by proposed expansions at both White Rose and Hibernia and expected production from Hebron by 2014/15. With oil prices expected to remain high, planned exploration in the Orphan Basin and other basins may yield new commercial discoveries.

Atlantic Canada Becomes a Net Energy Exporter
Atlantic Canada's international trade in energy products ($billions)

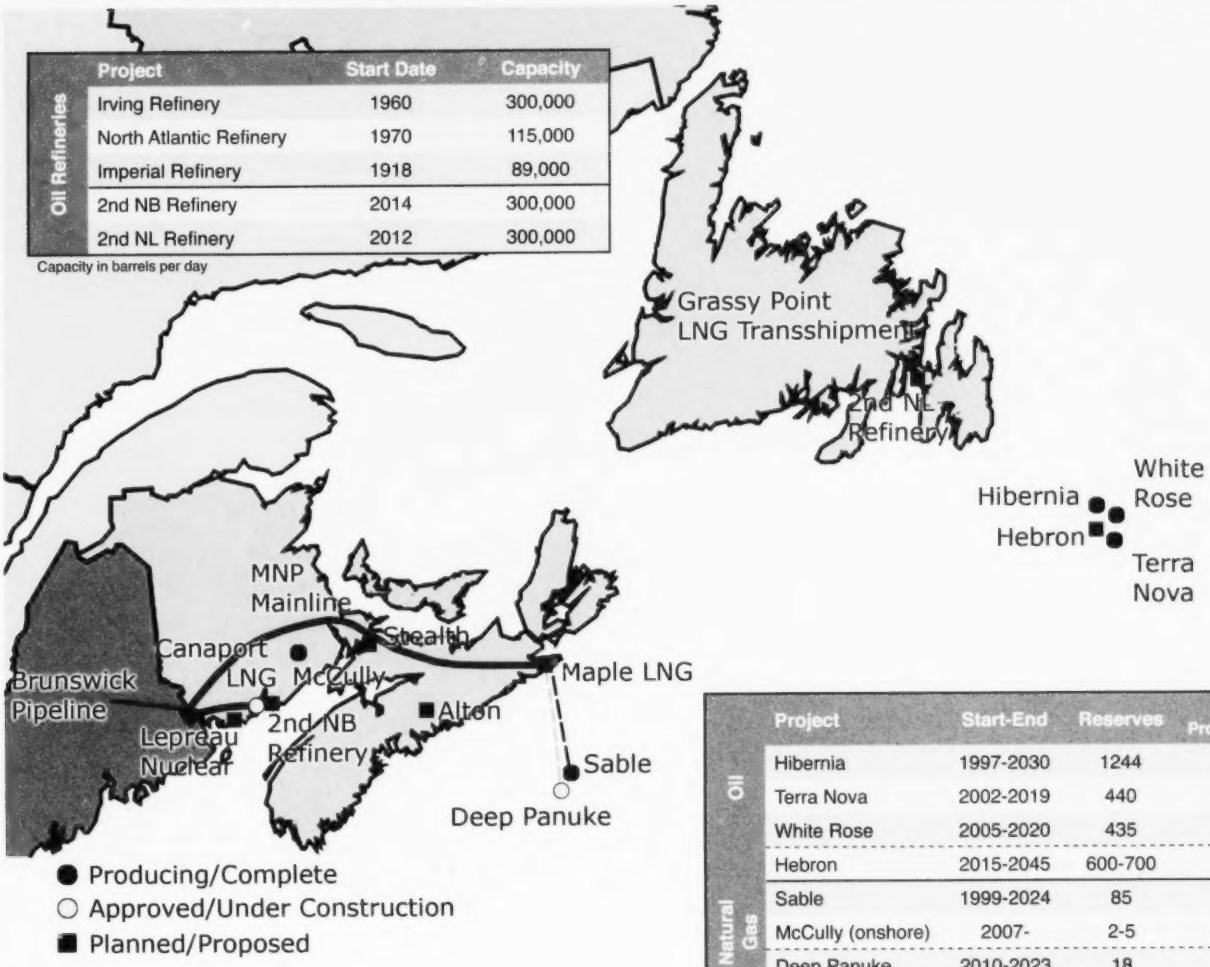


Source: Strategis - Trade Data Online/APEC

Nova Scotia's Sable offshore natural gas project accounted for about 2.2% of Canada's natural gas production in 2006. Output is projected to decline over the next few years but EnCana's nearby Deep Panuke project will provide a substantial boost to gas production in 2011. Future gas output from the region is less certain as there has been very little offshore exploration in recent years following several disappointing test results. There is potential to produce natural gas at Newfoundland's White Rose field but the technology and economics still need to be worked out. Further onshore production is possible with exploration continuing across the region. Stealth Ventures was recently granted approval for a coal-bed methane (natural gas from coal) development in Nova Scotia but gas production is not likely before 2013.

The region's supply of natural gas will jump substantially in 2009 when the Canaport liquefied natural gas (LNG) terminal is fully operational. The LNG plant is the latest addition to Saint John's developing energy hub. Feasibility assessments are currently underway to build a second nuclear reactor and a second refinery in the Saint John area. Work is also continuing on plans to build a second refinery in Newfoundland and Labrador.

Recent & Proposed Energy Developments (Conventional)



	Project	Start Date	Capacity
Oil Refineries	Irving Refinery	1960	300,000
	North Atlantic Refinery	1970	115,000
	Imperial Refinery	1918	89,000
	2nd NB Refinery	2014	300,000
	2nd NL Refinery	2012	300,000

Capacity in barrels per day

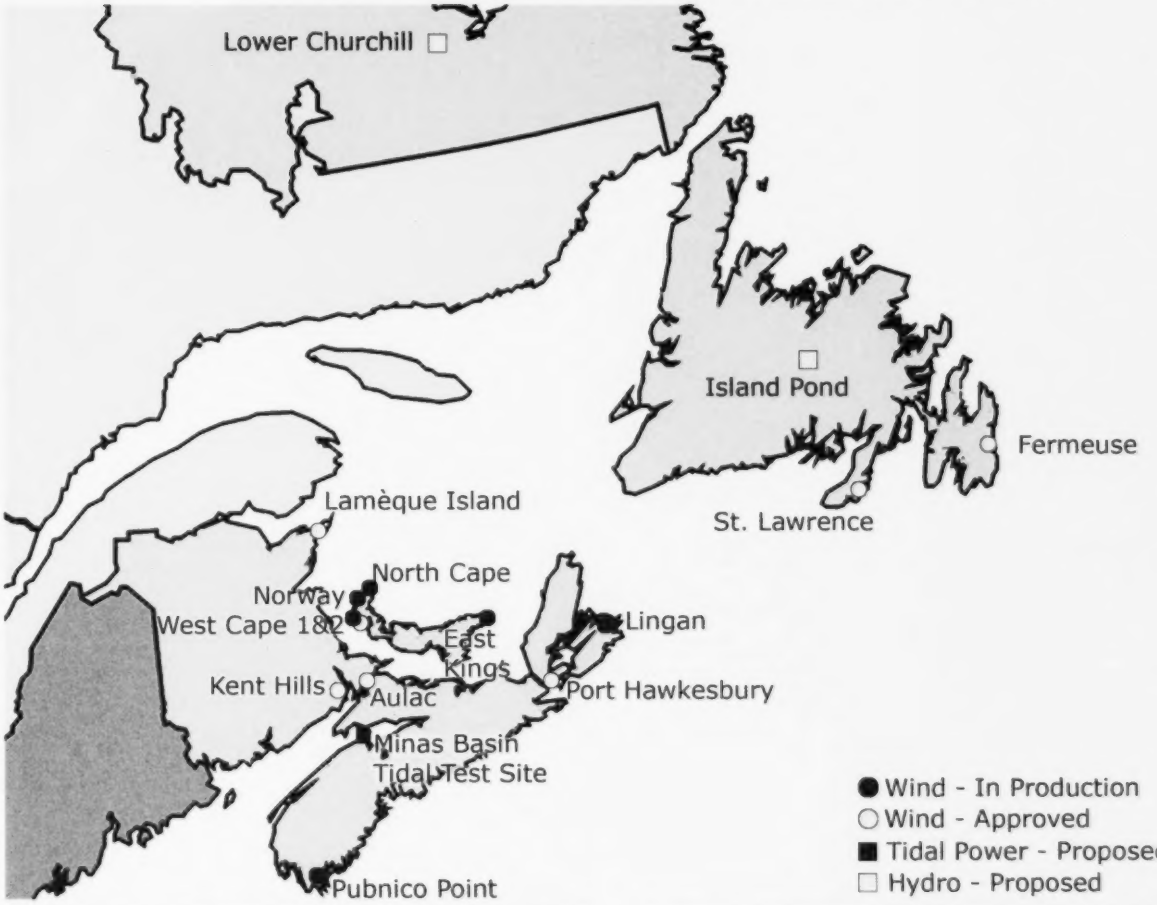
	Project	Start-End	Reserves	2007 Production
Oil	Hibernia	1997-2030	1244	49
	Terra Nova	2002-2019	440	42
	White Rose	2005-2020	435	43
	Hebron	2015-2045	600-700	0
Natural Gas	Sable	1999-2024	85	4.4
	McCully (onshore)	2007-	2-5	0.2
	Deep Panuke	2010-2023	18	0

Oil reserves & production in millions of barrels, natural gas in billion cubic metres

Potential Developments

- **Hibernia** - A proposed expansion, South Hibernia, would add 223 million barrels.
- **White Rose** - Three additional fields south of White Rose with 190 million barrels are expected to be tied back to the existing infrastructure over the next few years.
- **Hebron** - The provincial government and project partners have reached a tentative agreement on the $3-5 billion project.
- **Deep Panuke** - Construction begins in 2008 with several contracts to be awarded in the first quarter.
- **McCully** - A development drilling program is underway to add to the onshore natural gas reserves.
- **Stealth** - Stealth Ventures signed a 10 year agreement with the Nova Scotia government to develop its coal bed methane project. Further testing and feasibility studies are required.
- **Alton Natural Gas Storage (Onshore)** - Landis Energy of Calgary and its U.S. partner are planning a natural gas storage facility and potentially pipelines to market. The planned in service date is 2012.
- **Canaport LNG** - The $750 million Irving Oil/Repsol project will be shipping 1 bcf of natural gas to the U.S. by the end of 2008.
- **Maple LNG** - The 1 bcf project is waiting on federal environmental approval and a supply of gas.
- **Grassy Point LNG Transshipment** - The $1 billion terminal could begin construction in 2008 and be online in 2010.
- **Brunswick Pipeline** - Emera's $350 million pipeline is under construction and will connect the Canaport LNG project to U.S. markets by the end of 2008.
- **NB Refinery** - Irving Oil Ltd. has proposed a $5-7 billion refinery in Saint John.
- **NL Refinery** - NL Refining Corp. has proposed a $4.6 billion refinery in Placentia Bay.
- **New Lepreau Nuclear Plant** - A 1085 MW nuclear reactor costing an estimated $4 billion is being considered at Point Lepreau.

Recent & Proposed Energy Developments (Renewable)



Wind Farms - Atlantic Canada

	Project	Completion	Size (MW)
Producing	North Cape	2001/04	11
	Pubnico Point	2005	31
	Norway	2007	9
	East Kings	2007	30
	West Cape Ph. 1	2007	20
	Lingan	2007	14
Approved	Fermeuse	2008	24
	St. Lawrence	2008	27
	Kent Hills	2008	96
	West Cape Ph. 2	2008	80
	Port Hawkesbury	2009	22
	Aulac	2009	65
	Lamèque Island	2009	50

Other Renewable Projects

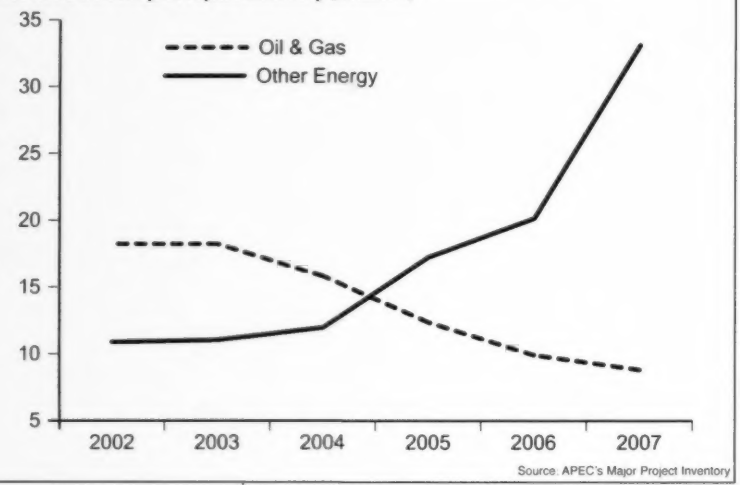
Project	Completion	Size (MW)
Minas Tidal Basin	2010	25
Lower Churchill Hydro	2015/18	2,824
Island Pond Hydro	2011 est	38

Potential Developments

- Nova Scotia Power has announced the approval of a project in Port Hawkesbury by Renewable Energy Services Ltd. that is the first of several announcements expected over the next few months totaling 240 MW.
- New Brunswick Power had approved two projects (Aulac and Lamèque Island) in its latest request for proposals to have an additional 300 MW of wind power in place by the end of 2010.
- The Lower Churchill components are the development of the Gull Island and Muskrat Falls sites, which would produce 2824 MW of electricity, and new transmission lines. The project could supply electricity for 1.5 million homes.
- A $12 million tidal plant will be built by Minas Basin Pulp and Power in the Bay of Fundy. Three separate groups will spend $12-15 million each testing their own tidal turbines at the facility. The goal of the project is to evaluate the potential for a full scale commercial tidal generating facility.

Note: These maps show recent and proposed energy projects in the Atlantic provinces. They do not show all the existing power plants, hydroelectricity and tidal projects or transmission lines or pipelines.

Potential Investment in Energy is Shifting Away from the Offshore
Value of APEC's Major Projects Inventory ($billions)



Source: APEC's Major Project Inventory

Renewable Energy

On the renewable side, there has been a large increase in planned wind developments, with $4.4 billion of proposed investment recorded in APEC's 2007 Major Projects Inventory. There is 132 MW of existing wind capacity in Atlantic Canada, 366 MW contracted or under construction and requests from utilities for nearly 300 MW more by the end of 2010. Nova Scotia is also moving ahead with a test tidal plant project in the Bay of Fundy.

Hydroelectricity has long been an important part of production in the region. The 5400MW Upper Churchill project in Newfoundland and Labrador is the third largest hydroelectricity project in North America. The province is currently working to develop the 2800MW Lower Churchill project and is examining different transmission routes to bring the power to market.

Growing Demand in New England

New England is the current market for about 85% of Atlantic Canada's international energy exports. Continued growth in demand in the North East is a key driver for many of the new and proposed energy projects in the region, including natural gas, refined petroleum, nuclear power and hydroelectricity.

In terms of electricity, peak demand in the New England area is growing rapidly at about 1.7% per year. ISO New England estimates that the region will need 3500 MW of new capacity by 2016 and 8000 MW by 2020-25. New England will continue to rely on imported natural gas; the last 10,000 MW of new capacity in New England were all natural gas facilities.

The New England states are increasingly seeking clean energy through renewable portfolio standards and requirements for energy efficiency and emissions. In particular, the New England states are among ten northeastern states that have agreed to the Regional Greenhouse Gas Initiative (RGGI) which aims to cap greenhouse gas emissions from electricity generators during 2009-14, and then reduce them by 10% by 2018. Imports of natural gas and clean electricity from Canada could play a role in meeting these ambitious targets.

In order to increase electricity supply to the New England market, further investment in transmission capacity would be required on both sides of the Canada-U.S. border. Furthermore, Atlantic Canada is not the only potential supplier to this market. Hydro-Quebec, for example, is already a much larger exporter of electricity to New England than New Brunswick and is increasing its own capacity.

Climate Change Pressures

The environment has rapidly risen up the Canadian political agenda reflecting increasing public concern and a growing scientific consensus about the extent and causes of climate change.

Canada is a large producer of greenhouse gases but its commitment to reducing greenhouse gases has been weak. Greenhouse gas emissions in Canada have continued to increase and are now 25% higher than in 1990. In the Fall 2007 Throne Speech, the Prime Minister indicated that Canada will not be able to meet its Kyoto target which requires a 6% reduction from 1990 levels over the 2008 to 2012 period. The federal government is moving ahead with its own strategies – including intensity targets for large emitters – which call for a 20% reduction from 2006 levels by 2020 and a 60-70% reduction by 2050.

Greenhouse gas emissions have also been rising in Atlantic Canada due to increased energy production and use. A heavy dependence upon fossil fuels for electricity generation in Nova Scotia and New Brunswick contributes to this region's high greenhouse gas emissions (relative to output). Quebec and British Columbia, with access to hydro-

electricity, have relatively lower emissions per dollar of GDP. Increasing this region's access to renewable energy and cleaner supplies of energy – natural gas is not widely available here as in other parts of Canada – will have to be a key part of any emission reduction initiative in this region. All four provinces are in various stages of developing their own energy strategies and climate change plans.

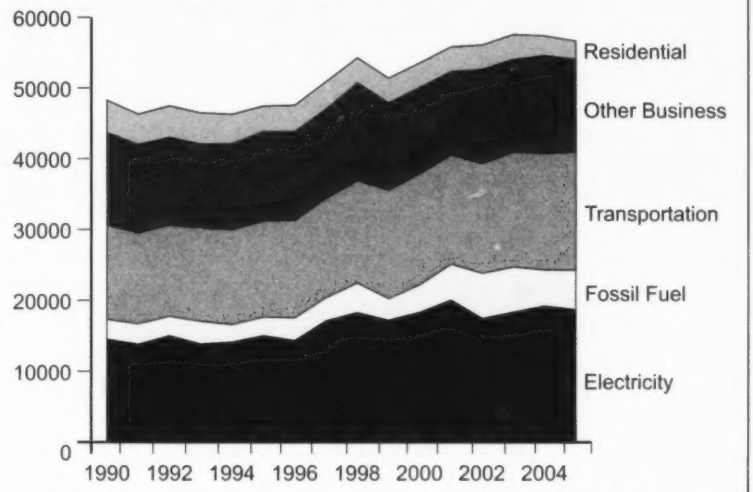
Energy conservation and improved energy efficiency is also being emphasized in these provincial plans. But hybrid cars are not cheap and retrofitting an existing home would be prohibitive for many homeowners. Policymakers need reliable estimates of how much and how quickly energy consumption will change in response to higher energy prices (or incentives) and the costs to businesses and consumers to meet new regulatory standards. Moreover, total energy consumption has grown in recent decades despite improved energy efficiency (energy use relative to output). Improved energy efficiency reduces energy costs which may increase demand.

Long-Term Risks

Energy developments in the Atlantic region are responding both to environmental considerations and future economic opportunities. Most of the energy projects currently under development or consideration require long-term investments. Many power plants will be in operation for 40 years or more requiring sophisticated risk analysis for several key variables that could evolve in different directions from existing assumptions.

Uncertainty about domestic and U.S. climate change policies is only one of the risks that need to be considered. For exports to the United States, the exchange rate is a key factor that can impact profit margins – the Canadian dollar has appreciated 65% over the last five years. While prices for fossil fuels such as oil are expected to rise over time, the extent and timing of these increases can significantly impact the relative cost of nuclear, wind and other renewable energy supplies. Finally, technology is continually developing. Breakthroughs in commercial technologies could substantially change both the supply possibilities (e.g., clean coal or carbon capture and storage that prevents the emission of greenhouse gases from conventional energy sources) and energy demand (e.g., battery powered or gasoline-free automobiles).

Atlantic Canada's Rising Greenhouse Gases
Greenhouse Gas Emissions by Sector (kt CO_2 equivalent)



Source: Statistics Canada

Working Together

While each Atlantic province has somewhat different opportunities in terms of energy developments, there are some common challenges and potential scope to improve outcomes by working together. Improved transmission within the region would help improve energy security and access to new, cleaner energy sources, most notably hydroelectricity from Lower Churchill. Nova Scotia's Emera recently signed a Memorandum of Understanding with Newfoundland and Labrador Hydro to investigate purchasing power from Lower Churchill. In terms of wind energy, the larger the geographic balancing area the easier it is to counterbalance variability in power. For multiple provinces this would require transmission upgrades and changes to tariff structures and the management of the supply. Elimination of multiple tariffs to wheel power through neighbouring jurisdictions was but one regional issue highlighted by industry speakers at APEC's recent Business Outlook conference.

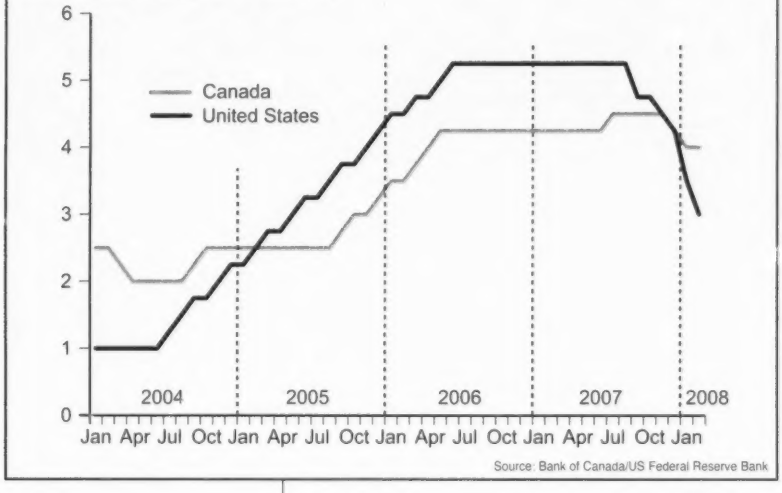
The future is looking bright for the energy sector in Atlantic Canada. Cleaner energy will form an increasing part of the region's energy portfolio. But significant risks remain. Will we work together to take maximum advantage of these new opportunities in energy for the benefit of both current and future generations?■

Atlantic Overview

The economic outlook for the United States has weakened considerably since the fall. This has led to a downgrading of growth forecasts for Canada, particularly in Central Canada, due to lower projected exports. The Atlantic provinces are not immune from the weakness in the U.S. market but growth in the energy and mining sector, recently awarded manufacturing contracts and the entry of new firms in the service sector will help the region weather the current turbulence.

Recession Fears Pull Down Interest Rates

Central Bank policy interest rates (%)



Source: Bank of Canada/US Federal Reserve Bank

Most forecasters now expect almost no growth in the United States in the first half of 2008 with the economy recovering in the second half of the year, helped by sharply lower interest rates and a US$150 billion fiscal stimulus. Whether the U.S. economy experiences a recession – usually defined as two consecutive quarters of falling output – is no longer relevant. What does matter is how deep and how long the current slowdown will be. Even under existing scenarios, growth in the U.S. economy may only recover to the 2-2.5% range by 2009.

There remain significant downside risks in the U.S. economy, in particular on the financial and consumer side. The U.S. housing market is not expected to turn around until well into 2009. Losses related to the housing market slump and a wider economic slowdown could lead to further credit pressures in the U.S. financial and banking sector. Tax rebates will have some impact on consumer spending later this year but lower household wealth, weaker job growth, higher energy prices and a drop in confidence could severely constrain overall household expenditure. The Federal Reserve has already reduced interest rates by 2.25 percentage points since September and further cuts are expected to try to help minimize the downside potential.

Overall, the Canadian economy is in much stronger shape than the United States. Employment in Canada grew by 2.3% last year, producing more than 380,000 new jobs while housing starts in 2007 marginally surpassed the previous year's tally.

The Canadian central bank has cut interest rates by a modest 0.5 percentage points since December. Core inflation has fallen sharply since the early fall and is expected to remain below 1.5% during the first half of this year. Price discounting following the appreciation of the Canadian dollar has helped lower core inflation while the recent GST cut has reduced the overall inflation rate, which is also projected to fall below 2% early this year. With the Bank of Canada currently expecting the inflation rate to remain below its 2% target until late 2009, the Bank has indicated that further modest interest cuts are likely in the coming months.

The weakening of external economic prospects since the fall has reduced the likelihood of any major short-term fiscal stimulus in the February 26 federal budget, given the government's stated commitment to avoiding a deficit. After taking account of tax measures announced in the fall Economic Statement (including the cut to the GST), the planning surpluses for the next two fiscal years were estimated to be only $1.3-1.4 billion. The fall projections did indicate scope for additional fiscal initiatives beginning in 2010/11.

Provincial governments in the Atlantic provinces will likely exhibit some caution in their own spring budgets, given continued uncertainty about economic developments in the United States and competitive challenges in their own export sectors. While high commodity prices have boosted revenues from the offshore and mining sectors, rising health care costs and infrastructure needs continue to create budget pressures. Newfoundland and Labrador will have much more fiscal room, buoyed by its sizeable offshore oil royalties.

Aside from increases in production from the mining and oil and gas sectors, overall economic growth in the Atlantic region has been subdued. Employment growth in 2007 of 1.4%

was well below the national pace although generally an improvement over the previous two years. Despite several plant closures in forestry and other manufacturing sectors, unemployment rates have continued to fall, particularly in urban centres.

Looking forward, investment could pick up substantially over the next few years if several proposed major project investments move forward as planned. The export-orientated manufacturing and services sector remain at risk of further closures due to ongoing competitive challenges, including the higher Canadian dollar. However, some sectors such as aerospace are expanding while new entrants in financial and business services will help create additional jobs.■

ATLANTIC ECONOMIC SNAPSHOT

Labour Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Employment	Jan-Dec 07	217.1	69.3	447.6	362.8	1,096.8	16,866.4
thousands	Jan-Dec 06	215.7	68.6	441.8	355.4	1,081.5	16,484.6
	%change	0.6	1.0	1.3	2.1	1.4	2.3
Unemployment Rate	Jan-Dec 07	13.6	10.3	8.0	7.5	9.2	6.0
percent	Jan-Dec 06	14.8	11.0	7.9	8.8	9.9	6.3
Unemployment Rate	Dec 07	12.4	10.6	7.7	7.8	8.9	5.9
percent (current month)	Dec 06	13.8	12.4	7.3	8.5	9.4	6.1
Participation Rate	Jan-Dec 07	59.2	68.2	63.7	64.0	63.1	67.6
percent	Jan-Dec 06	59.2	68.7	62.9	63.7	62.7	67.2

Consumer Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Consumer Price Index (CPI)	Jan-Dec 07	111.1	113.6	112.5	111.3	n/a	111.5
2002=100, unadjusted (period avg.)	Jan-Dec 06	109.5	111.6	110.4	109.2	n/a	109.1
	%change	1.4	1.8	1.9	1.9	n/a	2.2
Residential Permits	Jan-Nov 07	381	108	775	507	1,772	41,535
$ millions	Jan-Nov 06	295	116	776	456	1,643	37575
	%change	29.0	-6.9	-0.1	11.4	7.8	10.5
Urban Housing Starts	Jan-Dec 07	1,826	484	3,320	2,298	8,628	193,742
Units; unadjusted	Jan-Dec 06	1,494	523	3,328	2,873	8,218	195,030
	%change	22.2	-7.5	-0.2	4.4	5.0	-0.7
Rural Housing Starts	Jan-Dec 07	823	266	1,430	1,244	3,763	34,601
Units; unadjusted	Jan-Dec 06	740	215	1,568	1,212	3,735	32,365
	%change	11.2	23.7	-8.8	2.6	0.7	6.9
Retail Trade	Jan-Nov 07	6,036	1,470	10,666	8,590	26,762	376,579
$ millions	Jan-Nov 06	5,508	1,353	10,236	8,067	25,164	356,208
	%change	9.6	8.6	4.2	6.5	6.3	5.7

Industrial Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Total Non-Energy Exports	Jan-Dec 07	3,106	801	4,468	4,246	12,621	356,356
$ millions, unadjusted	Jan-Dec 06	2,564	835	4,073	4,341	11,812	352,168
	%change	21.2	-4.0	9.7	-2.2	6.8	1.2
Total Energy Exports	Jan-Dec 07	8,542	2.7	1,148	6,938	16,631	92,208
$ millions, unadjusted	Jan-Dec 06	6,034	3.0	1,017	6,068	13,121	87,967
	%change	41.6	-10.5	13.0	14.3	26.7	4.8
Manufacturing Shipments	Jan-Nov 07	4,834	1,208	8,175	12,861	27,079	514,080
$ millions	Jan-Nov 06	4,017	1,233	8,111	12,597	25,958	508,509
	%change	20.3	-2.1	0.8	2.16.5	4.3	1.1
Non-Residential Permits	Jan-Nov 07	171	44	417	394	1,026	26,594
$ millions	Jan-Nov 06	206	77	375	410	1,069	23,019
	%change	-16.7	-42.5	11.1	-4.0	-4.0	15.5

Note: Seasonally adjusted unless otherwise noted (unadjusted).

Source: Statistics Canada

Provincial Report
Newfoundland & Labrador

Current Conditions

A 21% jump in offshore oil output was the main driver behind the rapid rise in real GDP in Newfoundland and Labrador last year. But a broad range of indicators point to above average economic growth, including retail sales, construction and exports.

Despite the broad-based growth, employment advanced a meagre 0.7% last year. This was sufficient to increase total employment in Newfoundland and Labrador to 219,000 – a 30-year high. While the participation rate was virtually unchanged, unemployment decreased substantially due to a 0.7% decline in the labour force. The unemployment rate was down 1.2 points over 2006 to 13.6%, a 25-year low for the province. Most of the new jobs were created in mining, oil and gas extraction, and in the services sector.

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Exports from the province showed significant increases in crude oil and mining (see below for details); some offsetting declines in exports were seen in newsprint. Manufacturing sales grew by 20% in the first 11 months of 2007. Growth in this sector was led primarily by increases in non-durable goods such as seafood manufacturing.

By the end of November, retail sales were up 9.6% over the first 11 months of 2006, compared to a national growth rate of 5.7%. Over half of the growth in retail sales was due to automotive sales.

The housing market was another area of growth in Newfoundland and Labrador with housing starts up 18% in 2007 led by stellar growth in the St. John's market which was up 22% in contrast to a national increase of only 2.3%. This was positive economic news in 2007 including the go ahead of the Hebron project helped boost consumer confidence in the St. John's area.

Mining

Mining exports in the province nearly doubled in the first 11 months of 2007. A great deal of the growth was due to increased prices and demand for most mineral ores. However, new production from the Duck pond copper/zinc mine in central Newfoundland was also a major contributor.

New mining projects, combined with increasing commodity prices, indicate further growth in the sector in 2008. A $60-million expansion at the Iron Ore Company of Canada (IOC) in Labrador City is expected to increase production by mid-2008. The province's newest gold mine at Pine Cove is expected to open and begin producing in February 2008. The Beaver Brook antimony mine also expects to double its 40-person workforce when it reopens in the next few months. The Pine Cove and Beaver Brook mines are expected to last 12 years and 10 years, respectively. .

Energy

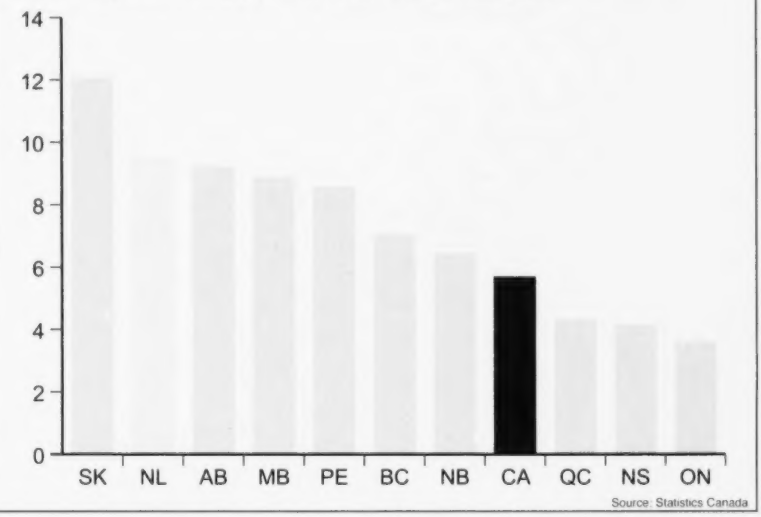
Energy continues to be a driving force in Newfoundland and Labrador. International energy exports from the province were up 42% in 2007, largely due to rising production of crude oil. The increase in oil output was due to a rebound in production at Terra Nova following several technical problems that reduced production in 2006. Growth in Newfoundland and Labrador's offshore output is expected to be significantly smaller in 2008.

Husky Energy will double its capital investment plans in Newfoundland's offshore this year spending $545 million on the White Rose project. The company plans to spend $425 million to develop nearby fields that will

be tied back to existing infrastructure. The remaining $120 million will be spent on the ongoing operations at White Rose. The company has secured the use of the drilling rig GSF Grand Banks – signing a $380 million contract, and signed a $75 million contract for engineering design, procurement and maintenance with AKCS Offshore Partner AS. There are three fields under consideration for development near White Rose, North Amethyst, South White Rose and West White Rose. Drilling is expected to begin at North Amethyst this summer if regulatory approvals are given. Total project costs for North Amethyst are estimated to be about $1.3 billion with first oil from the 70 million barrel field expected in late 2009. Regulatory approval was given for the $600 million South White Rose extension in September 2007. Husky is evaluating the results of early drilling conducted last year for West White Rose and expects to submit a development application for the project this summer.

In December the province announced that it would be launching a study on enhancing local opportunities from western Newfoundland oil and gas. The study will allow regional businesses and communities to identify infrastructure needs and supply and service opportunities.

Retail Conditions Were Strong Last Year in Newfoundland and Labrador
Retail Sales (percent change, Jan - Nov 2007 over previous year)



Source: Statistics Canada

Construction

Provincial and federal governments signed a $430 million infrastructure agreement in December to better address the infrastructure needs and priorities of Newfoundland and Labrador. The agreement is part of the federal government's new long-term infrastructure plan, Building Canada. Investments funded through this project will include improvements to the Trans Labrador Highway and upgrading of the Argentia access road.■

Newfoundland & Labrador EconoClips

Company/Project/Status	Impact/Output	Comments
Plazacorp Retail Properties	$4 million	Plazacorp Retail Properties is adding a retail development in Gander valued at almost $4-million. Two retailers are expected to open this summer in the 18,000-square-foot building on Airport Boulevard.
Fishing Industry Landings	$1 billion	The estimated total annual value of the province's fishery in 2007 is close to $1 billion. This historically high level of performance in the fishing industry is primarily indicative of increased landings and improved prices for key species.
GeoConnections **Expansion**	$2 million	The St. John's company, GeoConnections, has been awarded a contract of $2 million to build next-generation Internet portals for the federal Department of Natural Resources.

Prince Edward Island

Current Conditions

Modest job growth and strong consumer spending helped sustain economic growth in Prince Edward Island in 2007. However, weak housing and industrial conditions weighed on growth.

The Island's labour market showed positive trends in 2007. The unemployment rate decreased to 10.2% in 2007 and jobs increased 1.3% over 2006. Most new jobs in the province were added in the service sector.

The Island aerospace industry expanded its reach dramatically in 2007...

By the end of November, retail sales were up 8.6% over the first 11 months of 2006, compared to a national growth rate of 5.7%. This faster growth was mainly due to strong automotive sales.

On the down side, housing starts fell about 2% but there were marked differences in urban (-8%) and rural (+24%) areas. Manufacturing shipments were down about 2% last year, while exports were flat.

Aerospace

The Island aerospace industry expanded its reach dramatically in 2007 as recorded international exports increased from about $38 million in 2006 to an estimated $90 million in 2007. Aerospace products from Prince Edward Island are now being shipped to 29 different countries and trail only fish and processed potatoes among its exports.

A majority of the export growth last year occurred outside the main U.S. market. Non-U.S. exports exploded from $6 million in 2006 to over $48 million in 2007. Exports to the E.U. grew from $1 million to $25 million and shipments to Africa increased from $3 million to $12 million in 2007. U.S. exports grew 16% despite the impact of the dollar. Many of the players in the industry in Prince Edward Island are partially insulated from the exchange rate changes because they purchase many of their parts from U.S. suppliers. According to the provincial government the industry has sales of about $275 million per year and it employs 850.

There may be more growth in the next few years as it was announced in January that Weibel Aerospace of Summerside is expected to get a portion of the $290 million in contracts to build and maintain Canada's new fleet of military transport planes.

Agriculture

The Island's agriculture sector has been struggling lately with the strong Canadian dollar impacting export markets and an oversupply of product lowering prices in regional markets.

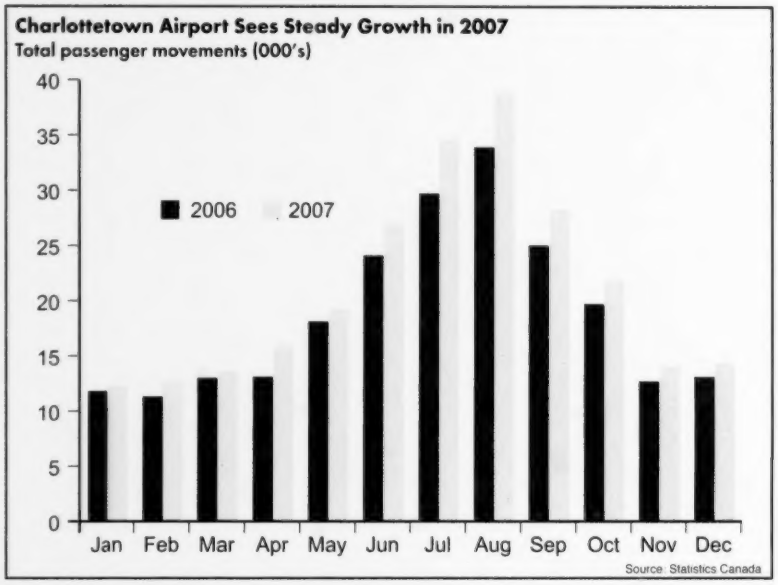
Exports between August and November of 2007 (a good indicator of revenues from this summer's crop) were down over 20% over the previous year with the largest declines in potatoes and fruit. Farm cash receipts were down about $20 million in the first three quarters of 2007 (a drop of about 7% from 2006) with potatoes accounting for most of the decline.

The major pork and beef processing facilities on the Island are both facing significant pressures due to market conditions. The beef processing facility in Albany, which handles cattle from the three Maritime provinces received $6 million from ACOA and $2 million from each province. The investment will allow the owners the ability to undertake new marketing initiatives for its products, purchase some specialized equipment and provide more training for the 90 employees at the plant. Without this facility producers in the Maritimes would have to ship animals to central Canada or the U.S. for processing. Meanwhile, the hog plant in Sherwood which employs 100 is currently in receivership after

its owners failed to pay back the province a $2.1 million loan due in January.

Technology

Prince Edward Island's research and development capacity received a boost with the latest round of funding from the federal government's Atlantic Innovation Fund. Seven projects will receive $14.2 million which is expected to help leverage an additional $10.4 million in funding. Funding was awarded to BioVectra Inc., Cogsdale Corporation, DeltaWare Systems Inc., First Venture Technologies Corp., Novartis Animal Health Canada Inc., the Atlantic Veterinary College and the University of Prince Edward Island. The projects include developing new drug compounds, researching new treatment options for patients suffering from cancer and reducing virus outbreaks in aquaculture facilities.



The province's emerging video game industry has seen some momentum in the last few months with two new companies setting up at the Atlantic Technology Centre in Charlottetown. Longtail Studios of New York is opening a video game development facility that hopes to hire 40 with two years. Sculpin QA, a subsidiary of Other Ocean Interactive, is a video game testing company that hopes to hire 20 people over the next two years. To support the growing industry the federal and provincial governments are providing $1.3-million to establish video game programming courses at the University of Prince Edward Island and at Holland College. There are currently about 60 people working in the industry on the Island. The global video gaming industry was worth nearly $40 billion in 2007 and is expected to grow close to 10% per year over the next few years.■

Prince Edward Island EconoClips

Company/Project/Status	Impact/Output	Comments
$13 million in Communities funding		Prince Edward Island will receive about $13 million from the $1-billion national community development trust fund. The fund is aimed at helping vulnerable communities in traditional industries hit hard by the impact of the strong dollar, soaring fuel prices and the slumping U.S. market.
Charlottown Airport traffic up 12% in 2007		New services including a daily Delta Airlines link with Boston for the summer months, WestJet Airlines flights to Montreal and a new daily Air Canada flight to Ottawa have helped boost traffic.
Lumber Mill gets loan		Arsenault Sawmill in Richmond which employs 50 to 75 people received a $2.8 million loan from the province to consolidate its outstanding debt which will help the mill to stay open.

Nova Scotia

Current Conditions

Nova Scotia's growth trailed the rest of the country in many sectors of the economy last year. Weak employment growth, below average consumer spending and a reduced number of housing starts characterized activity in the domestic economy in 2007. However, higher natural gas output and the return to full production at the former Stora Enso paper mill boosted industrial output and exports.

Employment in the province was up 1.3% last year, after a 0.3% decline in 2006; however, the increase was still below the 2.3% national average. Nova Scotia's unemployment rate increased marginally from 7.9% to 8.0% in 2007, in contrast to a decrease across Canada. Stronger labour force participation explains most of the increase in the provincial unemployment rate.

Renewable energy will continue to become a more important part of Nova Scotia's energy generation portfolio.

Retail sales in Nova Scotia were up 4.2% in the first 11 months of 2007, while Canada experienced growth of 5.7% during the same period.

New home construction was expected to soften and housing starts were down 3% in 2007. The majority of the decrease was in rural starts as urban areas were basically flat last year.

Total exports were up over 10% in 2007 but due mainly to the rebound in paper exports from the Newpage mill (formerly Stora Enso) after a nine month closure in 2006. Remaining exports were up about 5% as stronger natural gas and tire exports were partially offset by losses in pulp, lumber and other wood products.

Forestry

The enormous pressures facing the forest industry in Nova Scotia have eroded its profitability and led to a significant restructuring of the industry over the last three years, especially in sawmills and logging. The four large pulp and paper mills have survived so far and recent news has been good as the AbitibiBowater mill in Liverpool and the NewPage Corp. mill in Port Hawksbury were recently spared from cuts to capacity by those companies in North America.

However the sawmill sector is being hammered by factors such as the U.S. housing market crash and the higher Canadian dollar. Many of the largest sawmills in the province have closed or cut back output including Mactara Inc., the largest sawmill in the province. Mactara is in under creditor protection and halted most of its operations in December and laid off 160 employees. Two of the province's other large sawmills are trying to stay afloat, Freeman Lumber in Queens County received a $2 million repayable loan from the province to help keep most of its 100 employees working while Ledwidge Lumber of Enfield was forced to cut 27 of its employees. Total lumber exports from Nova Scotia fell 26% in 2007 and are down 41% since 2004, a decline of nearly $100 million. With U.S. housing starts continuing to decline, and the Canadian dollar expected to remain near parity, there is little hope for a quick recovery in this sector.

Renewable Energy

Renewable energy will continue to become a more important part of Nova Scotia's energy generation portfolio. Nova Scotia's wind generation has grown to 59 MW since the first commercial wind farm began operations in 2004. Nova Scotia Power is expected to announce contracts for eight new wind power developments in the province in the first quarter of this year. The 240 MW of new electricity will lead to construction spending of $500 million.

The province is also evaluating the potential for greater use of tidal power. A $12 million tidal plant will be built by Minas Basin Pulp and Power in the Bay of Fundy. In addition, three separate groups will spend $12-15 million each testing their own tidal turbine at the facility. The first test turbines, generating 3-5 MW of power, could be in operation by 2009.

Offshore Energy

Work on the $700 million Deep Panuke natural gas project is picking up steam. SBM Offshore NV, the Swiss consortium that EnCana selected to build the production facility for the Deep Panuke project will select many

of its Nova Scotia contractors by the end of March. The accommodation deck, flare boom and helideck are among the components that will be built in the province. Shaw & Shaw Limited, a subsidiary of The Shaw Group Ltd. of Halifax was awarded a $40 million pipe coating contract for the 175 km offshore pipeline. EnCana also recently announced that it would be hiring 70 people to staff its Halifax office including several engineers.

Aside from work on Deep Panuke activity continues to be muted in the offshore. At the end of 2007 another six exploration licenses were forfeited. This resulted in $94 million from the holders of the licenses which will be put toward the provincial debt. The Canada-Nova Scotia Offshore Petroleum Board recently made its first call for bids since 2003 for parcels in the Nova Scotia offshore. The areas are close to existing infrastructure with results coming this fall. The new exploration licenses will contain new terms and conditions to help encourage investment and future development activity including a reduction in the minimum bid from $1 million to $500,000.

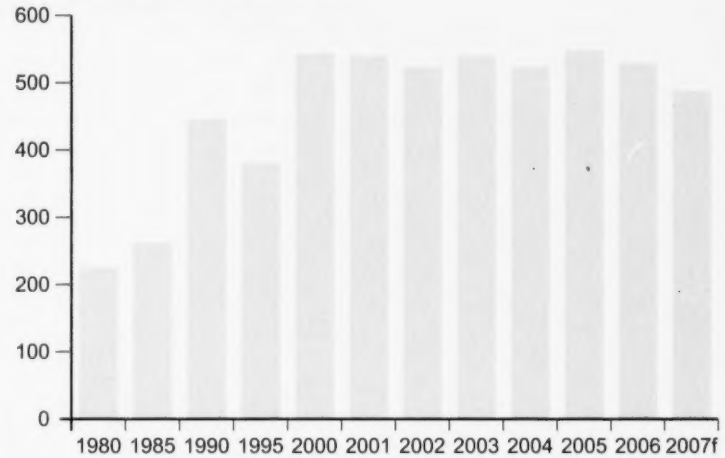
Transportation

Passenger traffic at the Halifax International Airport was up about 3% last year as total passengers reached nearly 3.5 million. The recent addition of the U.S. preclearance facility continues to pay off with the strongest area of growth in transborder (U.S.) and other international traffic which grew a combined 16%. An $82 million expansion which includes a 2,300 space parking facility next to the north end of the terminal building is now underway. A decision on a new hotel connected to the terminal building is expected this spring and could be open by 2010. Total cargo handled at the airport was up about 5% in 2007 and is an area of focus for the airport in 2008.

Container traffic at the Port of Halifax was expected to be down about 7% in 2007 to 490,000 TEUs. A realignment by Hapag Lloyd which is diverting some of its Halifax traffic to Montreal has eaten into tonnage. Although the Port lost the Maersk and China Shipping lines recently, there has been continued growth in traffic to and from Asia as part of its expansion in that area.■

Realignments Hamper Port of Halifax Efforts to Grow Gateway Container Activity

Container tonnage handled (Thousand TEUs)



Source: Halifax Port Authority, Containerization International Yearbook, APEC

Nova Scotia EconoClips

Company/Project/Status	Impact/Output	Comments
Window manufacturing plant expanding		Atlantic Windows is building a new manufacturing facility in Amherst that will add up to 200 jobs over the next five years. The site in Amherst was chosen because of its location for transportation to market, the availability of skilled labour and is proximity to its existing operations in Port Elgin. The province is contributing up to $1.2 million in payroll rebates.
Innovative projects receive funding		Eight Nova Scotia projects will receive a total of $17.4 million from the latest round of the Atlantic Innovation Fund. The projects are expected to leverage an additional $11 million from other sources.
The tourism season was marginally stronger in 2007		Total tourism related spending was up 2% to about $1.33 billion. The number of visitors and room nights sold also increased. The number of American visitors was down due to the high dollar, but was more than offset by an increase in visitors from other parts of Canada.

New Brunswick

Current Conditions

New Brunswick's strong dependence on the U.S. market may have muted its growth potential in 2007 but most indicators were still quite strong compared to the other Atlantic provinces. Labour market conditions improved considerably and retail sales, manufacturing, and exports all grew faster than the national economy. The growth in manufacturing and exports occurred despite challenging global conditions and several closures in the manufacturing sector.

The number of people employed in the province increased by 2.1%, just below the national pace and well ahead of the other Atlantic provinces. With over 7,000 new jobs in 2007, the unemployment rate fell from 8.8% in 2006 to 7.5%. Employment growth was seen in most sectors of the economy; however, the majority of new jobs in the province were added in the service sector.

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Supported by employment and income gains, consumer spending has remained robust. Retail sales in the province were up 6.5% in the first 11 months of the year, compared to a national growth rate of 5.7%. Over one third of the growth in retail sales was due to automotive sales.

Forestry

The struggles of the forest industry in New Brunswick continued late in 2007 as UPM Kymmene and AbitibiBowater announced that they would be permanently closing their mills in Miramichi and Dalhousie. The UPM mill had been closed indefinitely since March while the AbitibiBowater closure took effect at the end of January 2008. Nearly 1,000 direct jobs were permanently lost in the two announcements. The province has until September to find a buyer for the Dalhousie mill when it is scheduled to be dismantled.

AV Cell which operates a pulp mill in Atholville is investing $32 million to remove bottlenecks at the mill which will improve output from 300 tonnes per day to 360 tonnes per day. The province is providing a $17.3 million loan to the mill to help fund the upgrade. The province is also expected to provide some support for the forest industry in its March provincial budget. The federal government announced that the province will receive $30 million from its Community Development Trust which will help communities hit hard by international economic volatility, some of which will be directed to the forest dependant communities that have lost mills recently.

The lumber sector continues to struggle with the impact of the U.S. housing slowdown and the strong dollar. The U.S. housing market has yet to bottom out and demand for Canadian lumber remains very weak. Annual lumber exports from New Brunswick to the U.S. are down about $300 million between 2004 and 2007. Several more mills have closed or reduced output over the course of the past year including many of the larger mills. Some operators have begun to look further a field for opportunities. Lumber shipments to the Europe will be close to $20 million in 2007, up from $7 million in 2006, with the largest share going to the U.K. and Ireland.

Manufacturing

Other parts of New Brunswick's manufacturing sector are also getting hit hard by the current market conditions. Owens-Illinois Inc. which runs a glass factory in Scoudouc announced that it would be closing the facility at the end of March putting 200 out of work. The facility had not been upgraded in recent years and was producing bottles at a rate of less than one-third of some of its U.S. facilities.

Two yarn mills in northern New Brunswick have been closed since November, keeping 330 out of work. Atlantic Yarns Inc. of Atholville and Atlantic Fine Yarns Inc. of Pokemouche

are both under court-ordered creditor protection. The mills were scheduled to reopen in January but that has been pushed back.

A proposed rate hike for industrial natural gas customers will be heard by the Energy and Utilities Board in February. The proposed increase by natural gas distributor Enbridge Gas New Brunswick would nearly double the rate that large users would be paying. Many manufacturers that have converted to natural gas including Flakeboard Company Ltd. and Atlantic Wallboard are strongly fighting the increase.

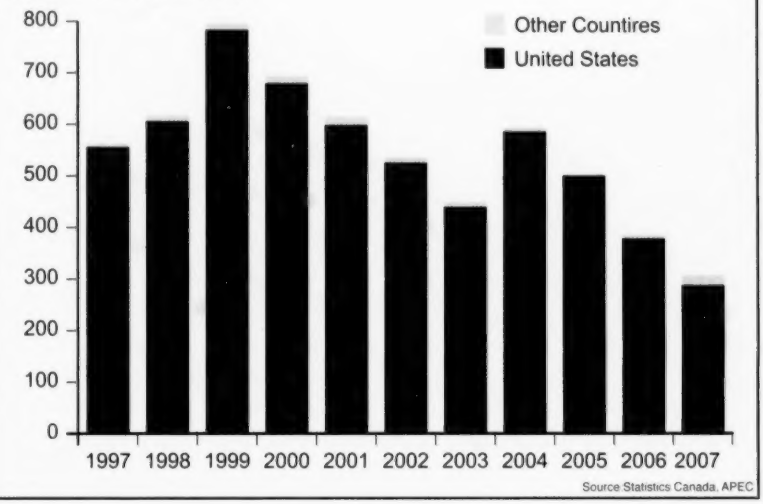
Mining

The mining sector continued to expand in New Brunswick in 2007. After several years of output in the $400-600 million range the total value of production ballooned to $1.2 billion in 2006 and to $1.4 billion last year. Rapid increases in the price of key minerals produced in New Brunswick accounted for much of the increased value but the high prices have led to new developments. Blue Note Mining, for example began operations at the Caribou lead/zinc mine near Bathurst in 2007. The province,s budget will also receive a boost as the metallic minerals tax is expected to generate $70 million in revenue this fiscal year, compared with $4 million annually over the past two decades.

Looking ahead, activity is expected to be strong in the industry as the Potash Corp. of Saskatchewan will be spending $1.7 potash on its mine expansion near Sussex and the Mount Pleasant tin/indium mine is under development by Adex Mining Inc which could begin producing within the next two years employing 200 people. Exploration expenditures are also on the rise from $13 million in 2006 to $32 million last year. On the down side, zinc production is set to drop off in 2010 with the planned closure of Xstrata's Brunswick mine near Bathurst. There are 850 people employed at the mine and another 450 at the smelter in Belledune. ■

New Brunswick's Lumber Exports Getting Slammed by the US Housing Crash

Exports of lumber ($millions)



Source Statistics Canada, APEC

New Brunswick EconoClips

Company/Project/Status	Impact/Output	Comments
Record capital budget		The province announced a record $486 million capital budget for the 2008-09 fiscal year including $326 million for roads and highways. In addition $58 million will be spent on health care facilities and equipment and $42 million for schools.
New transit facility		Saint John is getting a new 115,000 square foot facility to house its fleet of buses. The city will receive $8 million from the federal government's Public Transit Capital Fund. Construction is expected to begin later this spring.
Hog farmers struggling		The provincial hog industry has lost more than half their producers from the combined effect of falling prices for hogs, rising feed prices and the strong Canadian dollar. Recent cuts in production across the country are expected to help prices over the next year. The provincial government has given producers a $3 million aid package in the form of repayable loans.

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